

MINUTES
PAGE COUNTY BOARD OF SUPERVISORS
WORK SESSION
DECEMBER 1, 2009

Members Present: Tommy R. LaFrance, Chairman-At-Large
Charlie Hoke, District 1
Larry A. Sours, District 2
J. D. Cave, District 3
Gerald Cubbage, District 4
Carol Lee Fischer-Strickler, District 5

Staff Present: Dr. Thomas Cardman, County Administrator
Nathan Miller, County Attorney
C. R. Suddith, Treasurer
Henry Mikus, Director of Public Works
Regina Miller, Executive Secretary

School Board Present: Randy Bailey, Chairman
Melissa Deibert
Sharon Lucas

School Staff: Dr. Randall Thomas, Division Superintendent
John Smith, Assistant Superintendent for Human Resources
and Administration
Barbie Stombock, Director of Finance
Richard Thompson, Director of Support Services
Ellen Fields, School Board Clerk

Others Present: Robert Griffith, Supervisor-Elect, District 1
Jeff Vaughan, Supervisor-Elect, District 5
Johnny Woodward, Supervisors Chairman-Elect
Morgan Phenix, School Board Chairman-Elect
Jackie Smoot, School Board Member-Elect
Carolyn Perry, Bond Counsel
Luther Johnson, *Page News & Courier*
2 Citizens

Call to Order:

Chairman Tommy LaFrance called to order the work session of the Page County Board of Supervisors on December 1, 2009 at 7:00 p.m. in the Board of Supervisors Room located in the Courthouse, noting a quorum was present.

School Board Chairman Randy Bailey called to order the meeting of the Page County School Board, noting a quorum was present.

Joint Meeting with the School Board

Discussion of Bond Proceeds:

Dr. Cardman presented a draft document on the school construction bonds summary, which was used to brief the Board on the status and options that may be available to them concerning the proceeds from school bonds. He pointed out that it has been suggested that some of the proceeds in the 2008 bond could be used to substitute for some current capital expenditures in the school budget and used to pay as much of the January 2010 interest payment as possible. This could result in approximately \$1.2 million savings to the current County budget. In addition, it was suggested the funds be used to pay the first interest payment in July 2010 on the 2008 bonds from proceeds. This would relieve the County of having to budget the amount of \$333,145 from the general fund. Then consideration could be given to appropriate any or all of the amounts suggested above from the recent resolutions forwarded by the School Board. He noted that the 2000 bond issue for purchasing the property at Luray High School and the cost of the initial design were included to represent the entire cost for borrowing for the school construction projects, with the total borrowing for such at \$61,500,000. He estimated that \$75,000 would need to be appropriated in order to close out on the new schools. Ms. Stombock clarified that the amount of the punch list is retainage and has already been approved and is not additional money. Dr. Thomas mentioned that about 65% of the 2000 bond was used to purchase the land for Luray High School and the remaining was used to upgrade the windows and roof at Page County High School, meaning that the entire bond amount was not used for school construction.

Chairman LaFrance stated that there are remaining funds and the question is how can it be spent, what it can be spent on, and how an agreement can be reached between the two Boards.

Carolyn Perry, Bond Counsel, explained, in depth, that all bond proceeds, whether principal or investment earnings must be spent on capital projects for school purposes, pursuant to state law. The County is not allowed to pre-pay principal on any of its school bonds or use any bond proceeds to pay principal but it can be used to pay interest. Regarding the 2006 school bond, all that remains are investment earnings. The County and the School Board cannot access those monies because the County has rebate of arbitrage liability that will be paid to the United States Treasury. The amount of these proceeds is \$301,070.47 and it will remain on deposit with the State Non-Arbitrage Program (SNAP) because tax laws require the County, five years from the date of issuance, to pay its rebate. As to the 2008 school bond issue, the remaining original principal proceeds, at this time, is \$4,224,733.65. In the investment earnings account, there is \$296,263.38. The federal tax law requires the School Board to zero out the principal account before they can ever access the investment earnings. However, all of the legal paperwork, approvals from the School Board, County, and Virginia Public School Authority proceeds agreement, allows the School Board to drawdown its proceeds, both principal and investment earnings, for capital projects for school purposes in Page County, not just the high school projects.

Mrs. Perry then addressed the upcoming interest payment on the 2006 bonds and said 2008 proceeds cannot be used to pay debt service on the 2006 bonds. However, she has inquired with the Virginia Public School Authority on whether the School Board could legally use a requisition for principal proceeds, but she has not received an answer back. She indicated that it would be no problem to draw down school bond proceeds to pay for capital projects that are in the budget.

Chairman LaFrance mentioned that this issue originally surfaced at a meeting on November 10th as requested by Dr. Thomas between him, Dr. Cardman and school personnel on a preliminary discussion on how the School Board planned to use arbitrage funds. He mentioned, at that time, that the County also had capital projects and debt service as a use of the money. This is the reason for this joint meeting so everyone can work together to find the best thing for Page County. He then asked why no one knew that they could have used these funds from the bonds.

Mrs. Perry stated that the County's use of its investment earnings from any school bond issue to pay interest on debt service on the bonds is a novel question and has been for Virginia Public School Authority (VPSA) this fall when she made the first call. VPSA had to think about the question but she was told that at least three other jurisdictions had raised the same question. Another question she has raised with VPSA and their attorneys is the County would like to know if they can use their principal proceeds. The issue is that the County did not know to put that in other places in the bond documentation but they did indicate to VPSA an intention to pay some portion of interest on the 2008 bonds with school bond proceeds (principal and investment earnings). So, she feels the County has a chance to make the argument.

Ms. Stombock explained that what the schools use for their facilities projects is the facilities category in their operating budget. In that category, they use 50% of the lottery money from the state, but this year it is 100% because there is no match requirement. This year the lottery money amounted to \$211,000 this year. Also included in the category is 100% of the school construction grant from the state as well as the local match, which went away this year. So, all they have in the facilities category is about \$211,000. If the County pulled capital outlay from the school budget 8000 code, this would include not only, the facilities category, but also the capital outlay in every other category and these items would not be capital improvements but would be items such as copy machines. This she said would explained the \$860,000 amount on the handout as provided by Dr. Cardman he had listed to appropriate as the potential bond balance to substitute for general fund budgeted school capital expenses.

Chairman LaFrance asked everyone not to quote the \$860,000 as being correct, it is simply a number for a talking point. He said this real amount needs to be determined.

Mrs. Perry then explained the three year rule concerning the use of bond proceeds. Tax laws consider that when the County comes to the tax-exempt bond market the right amount of money is being borrowed at the right time and you are ready to proceed with your project. Therefore, a bond issuer, such as Page County and the School Board

agreed in all the documentation as tax laws require that they both would proceed with diligence and within three years, in accordance with statute, would spend all their proceeds. She pointed out that the County and School Board should plan, as with any tax-exempt bond issue, to expend all principal and investment earnings within three years.

Chairman LaFrance remarked that the School Board needs to go through their 2009-2010 budget and determine what is in there that can be paid for from the bond proceeds and offset the requirement of the Board of Supervisors to continue to draw down reserves. In doing next year's budget, it will be known that this is available to spend.

Ms. Stombock then asked Mrs. Perry if there is a two year spend down exception rule that says they have to spend a certain percentage of the bond money on construction of real property versus equipment. Mrs. Perry replied that if a tax-exempt borrower wants to avoid having to pay rebate and get to keep investment earnings, it can be avoided if the money is spent fast with three basic spending exceptions. One is the two year construction exception, which says 5% of those proceeds must be spent on the construction of real property. There is also an 18-month spending exception as well as a 6-month spending exception. However, in the 2006 and 2008 issue the County and School Board have not satisfied those spending milestones to be eligible for an exception to rebate of arbitrage and this is why SNAP is holding back money in the 2006 bond.

Dr. Cardman clarified that the question waiting an answer is whether or not principal can be used for interest payments.

Chairman LaFrance then mentioned that the three Resolutions from the School Board, two of which request funding from the construction contingency for security cameras at the two new high schools for \$40,000 and paving of the access road at Page County High School and Page County Middle School for \$60,856. He said the funds for the two Resolutions does not need to come from contingency, which is the county general fund, but should come from the \$4.2 million in arbitrage since they are capital projects. He mentioned that the school staff needs to review their budget to see what capital projects qualify to use arbitrage funds. This would then relieve the County of the funding approved in the school budget for capital projects and place this amount back in reserves. The School Board should also include the arbitrage funds in next fiscal year's budget for capital projects as well as interest payments.

Mr. Suddith remarked that of the \$59 million appropriated for school construction, only \$1,079,000 has not been spent. So, of the \$4.2 million the \$1,079,000 has been spent.

Mrs. Deibert asked the Board of Supervisors to take action on the School Board's Resolutions at their next meeting. She indicated that these projects are in the process of being completed. She said if the Board of Supervisors does not appropriate the funds for these Resolutions it will come from the school's lottery money.

Dr. Cardman confirmed that if the School Board wants funding for the security cameras and the access road they should rewrite the Resolutions and request the funding to come from the 2008 bond proceeds.

With no further business from the School Board, Chairman Bailey adjourned the School Board meeting at 8:45 p.m.

Recess: The Board took a brief recess at 8:45 p.m.

Reconvene: Chairman LaFrance reconvened the meeting at 8:59 p.m.

WORK SESSION

Update from the Economic Development Authority:

The first part of the update was given by Sara Levinson. She presented the newly designed Economic Development Authority (EDA) website, which is set to go live on December 18th. The website, she said, was designed by Civic Plus, a web design company. She pointed out that the target audience for the website is businesses and site selectors. Lastly, she noted that as part of the contract for the EDA website, Civic Plus will also redesign the County's website for one-third of the price.

Dr. Cardman explained that the EDA has established another subcommittee to work with their business retention and expansion program, which is another piece of the Strategic Economic Development Plan. Lastly, the Microenterprise Loan Program has been launched and as of November 5th there had been 13 inquiries from Page County into the program. Shenandoah County, who is our partner in this program, has had 3 inquiries. He said this program is beginning to work and move into the community.

Report from the Public Works Department:

Henry Mikus, Director of Public Works, reported that October trash tonnage was 4,367 with billed revenue of \$126,421. He said revenue at this point during the year is behind by about 5%. He highlighted that with five months or 42% of the fiscal year passed, he has expended 38% of his budget. However, in looking ahead he said there are some environmental issues that will have to be handled. He pointed out that DEQ conducted an inspection at the Battle Creek Landfill and had no violations but cited some areas of concern. He indicated that during November the staff collected gas and groundwater samples at Stanley Landfill and the gas disclosed some problems. The problem, he said, is with some hot gas probes and precautions have been taken to ensure the safety of the surrounding landowners. The matter has been shared with DEQ and they will issue a warning letter. Lastly, Mr. Mikus reviewed items for the Board to consider in his report and thanked them for their support and dedication.

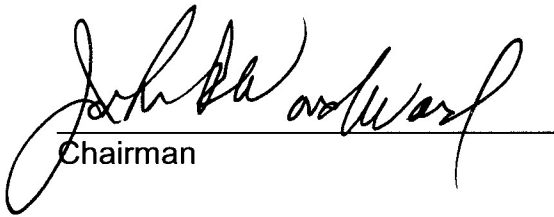
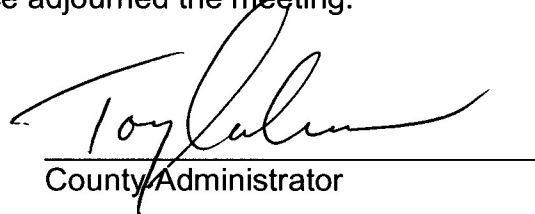
Board of Equalization:

Dr. Cardman informed the Board that the responsibility of appointing the Board of Equalization will be a function of the new Supervisors after January 1st. He said there will be time to consider the appointees and he noted that under Virginia Code there are specific requirements regarding member's qualifications, which have to be met. The

Board of Equalization must be in place within the next 6-8 months in order to participate in training provided by the Virginia Department of Taxation.

Adjourn: 9:52 p.m.

With no further business, Chairman LaFrance adjourned the meeting.


Chairman
County Administrator